



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

DIVISION OF ENERGY

IN THE MATTER OF THE PETITION OF)	ORDER ADOPTING
ROCKLAND ELECTRIC COMPANY FOR)	STIPULATION
APPROVAL OF CHANGES IN ELECTRIC)	
RATES, ITS TARIFF FOR ELECTRIC)	
SERVICES, ITS DEPRECIATION RATES,)	
AND FOR OTHER RELIEF – PHASE II UPPER)	
SADDLE RIVER SUBSTATION, DARLINGTON)	
SUBSTATION, AND INCREMENTAL)	
RELIABILITY PROGRAM)	DOCKET NO. ER02100724
IN THE MATTER OF ROCKLAND ELECTRIC)	
COMPANY'S ANNUAL SOCIETAL BENEFITS)	
CHARGE FILING)	DOCKET NO. ET04040235

(SERVICE LIST ATTACHED)

BY THE BOARD¹:

On March 3, 2004, Rockland Electric Company ("RECO" or the "Company"), a public utility of the State of New Jersey, filed a Phase II petition with the Board of Public Utilities ("Board") seeking approval of an increase in base rates for electric distribution service pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.12. The petition sought additional revenues of \$3.1 million (or a 2.0% increase) based on total revenues calculated using current rates and the Company's sales for the twelve months ended December 31, 2003.

On April 2, 2004, RECO also submitted its annual Societal Benefits Charge ("SBC") filing, Docket No. ET04040235, to reconcile any over- or under-recovered balances recovered through the SBC and to provide for current program cost recovery ("SBC Filing").

¹ Commissioner Frederick F. Butler did not participate in the deliberation or vote on this matter.

The Company is a wholly owned subsidiary of Orange and Rockland Utilities, Inc. ("O&R"), a New York utility. O&R is a subsidiary of Consolidated Edison, Inc. ("CEI"). RECO provides electric distribution service to approximately 70,000 customers in portions of Bergen, Passaic and Sussex Counties.

PROCEDURAL HISTORY

On October 1, 2002, the Company filed its petition in Docket No. ER02100724, requesting an increase in its base electric rates and charges. Among other things, RECO requested inclusion in rate base of certain costs associated with the Upper Saddle River and Darlington Substation projects, as well as costs associated with new and/or enhancements to various reliability programs. Public hearings were held on February 10, 2003 and March 19, 2003 in Montvale.

At the conclusion of comprehensive evidentiary hearings at the Office of Administrative Law ("OAL") and after receipt of an Initial Decision from an Administrative Law Judge ("ALJ"), Exceptions and Reply Exceptions thereto on July 31, 2003 the Board issued a Summary Order, which was followed on April 20, 2004 with a Final Decision and Order ("Final Order") deciding the Company's base rate case filing as well as its deferred balance filing.² The Board established adjusted base rates effective August 1, 2003 for the Company, reflecting a reduction in revenues of \$7.217 million, a 5.3% decrease. Although the Board disallowed the costs associated with the Upper Saddle River and Darlington Substation projects as well as costs associated with the reliability projects because these costs were not sufficiently known or measurable at that time, it authorized RECO to make a Phase II filing not later than September 1, 2004 to address these expenses and the associated flow through impacts. Summary Order at 4; Final Order at 61-62, 65. The Board left the rate case docket open for this purpose.

In accordance with the Summary and Final Orders, on March 3, 2004, the Company filed the Phase II petition requesting a base rate increase of \$3.1 million (or 2.0%) based on total revenues calculated using current rates and the Company's sales for the twelve months ended December 31, 2003. The Board retained jurisdiction over the matter.

A prehearing conference was held on June 9, 2004. Representatives of the Company, the Division of the Ratepayer Advocate ("RPA") and Board Staff (collectively, "the parties") participated. There were no intervenors in this proceeding. Evidentiary hearings were scheduled for August 25, 26, and 27, 2004 before Commissioner Carol J. Murphy. In addition, discovery deadlines were established and the parties agreed to continue to meet to discuss a settlement of this matter.

Pursuant to the schedule established at the pre-hearing conference, an additional public hearing was held on July 7, 2004 in Montvale at which time no members of the public appeared.

Discovery was provided by the Company and settlement discussions were held between the parties. After extensive discussions, the parties reached a settlement on all issues in the Phase II rate proceeding ("Stipulation" or "settlement").

² *I/M/O the Verified Petition of Rockland Electric Company for the Recovery of Its Deferred Balances and the Establishment of Non-Delivery Rates Effective August 1, 2003, BPU Docket No. ER02080614.*

STIPULATION

As set forth in the attached Stipulation, the Parties agreed as follows:³

- RECO's Phase II filing was consistent with and satisfied the requirements of the Final Order. It resolves all Phase II issues as identified in the Final Order. (Stipulation numbered paragraph 1).
- RECO's total rate base resulting from this proceeding will be \$128,549,000. (Stipulation numbered paragraph 2).
- A revenue increase of \$2.7 million, or 1.7%, over present revenues is appropriate and necessary to ensure that the Company will continue to provide safe, adequate and proper electric distribution service to its customers. This Stipulation allows the Company to recover the costs of the Upper Saddle River and Darlington Substation projects and the added expenditures related to increased reliability measures. The determination of the revenue requirements is reflected on Schedule A to the settlement. (Stipulation numbered paragraph 2).
- The revenues and rates resulting from the Stipulation reflect application of all the Board's determinations in the Final Order, including those regarding rate of return and capital structure. (Stipulation numbered paragraph 3)
- The \$2.7 million base rate increase will become effective the same day the Company implements a Transition Bond Charge ("TBC") consistent with the securitization transaction approved in the Board's May 26, 2004 Bondable Stranded Rate Order in Docket No. EF02110852. ("Effective Date"). (Stipulation numbered paragraph 4).
- Petitioner's April 2, 2004 annual SBC filing, requesting a decrease in the SBC rate, shall be implemented on a provisional basis, subject to refund and interest pending a full and complete review of the filing by the parties to that matter. (Stipulation numbered paragraph 6).
- By implementing the base rate increase and the provisional SBC decrease authorized by the Stipulation on the Effective Date (i.e. concurrently with securitization) customers will experience only one rate change, which will result in an overall rate decrease. (Stipulation numbered paragraphs 4 and 6).
- RECO agrees to implement an outage restoration pilot service performance measure ("SPM") pilot program whereby customers will receive a \$25 bill credit if deprived of service for more than 24 hours as a result of a power failure attributable to malfunctions in RECO's local distribution system. However, the SPM will not apply when customer outages occur in conjunction with outages that occur anywhere on the Orange & Rockland ("O&R") system, including RECO's system, due to weather events that can be declared as major storms (as defined under New York and New Jersey's reliability reporting criteria), catastrophic events and other acts of God, events caused by third parties, labor

³ This is intended as a summary of the settlement. The full settlement agreement controls.

disputes, strikes, outages on the bulk power system caused by transmission, generation or other causes including supply shortages and acts of war or terrorism and other intentional torts. Also excluded are requests for service interruption by outside agencies, including, but not limited to, police departments, fire departments, and regional power coordinating councils. Additionally, RECO's liability under the outage restoration program is capped at \$25,000. (Stipulation numbered paragraph 5, attachment Schedule B).

DISCUSSION AND FINDINGS

At the outset, it must be recognized that as a result of (1) the provision of the Stipulation whereby RECO has agreed that the \$2.7 million rate increase will not become effective until the Effective Date; (2) RECO's success in the last Basic Generation Service ("BGS") auction in securing BGS for its customers at a reasonable price; and (3) a small decrease in RECO's Societal Benefits Charge approved on a provisional basis, subject to refund and interest as provided herein; the average residential customer using 925 kilowatt hours (kwh) per month will in fact experience an annualized rate decrease of 0.70%.

In addition, the settlement recognizes the importance this Board has placed on providing customers with reliable utility service both by RECO's implementation of new and enhanced reliability programs and agreement to implement an outage restoration service performance pilot measure. As indicated in the Settlement, under the terms of the stipulated SPM Credit Pilot Program, the Board's regulatory authority shall not be limited with respect to any service interruptions to RECO's customers, nor shall the Board be precluded from investigating any outages, ordering appropriate remedies, or adopting any other measures with respect to service reliability, including, but not limited to, outage restoration, that it may deem appropriate. Moreover, the SPM Credit does not in any way limit any RECO customer's right to pursue any legal remedy it believes is available with respect to a specific outage occurrence affecting said customer. Additionally, although the Board encourages increased emphasis on the development of outage performance measures, pursuant to the Stipulation, the specific terms of this SPM Pilot Program are limited to the specific facts of this Stipulation and shall not be deemed precedential for any future program for this or any other utility. Finally, RECO has agreed and is **HEREBY DIRECTED** to provide to the Board and to the signatory parties an annual report providing a brief summary of each incident that triggers an SPM credit as well as the total annual SPM credits provided to customers.

Having reviewed the Stipulation and the Initial Decision, the Board is satisfied and, **HEREBY FINDS**, that the Stipulation represents a fair and reasonable resolution of the issues and is in the public interest. The Board recognizes that the proposed Stipulation is the result of intense negotiations among the parties and is responsive to and balances the respective needs of both the utility and its customers.

The Board **FURTHER FINDS** that: (1) the Parties have voluntarily agreed to the Stipulation; and (2) the Stipulation fully disposes of all issues in controversy and is consistent with the law.

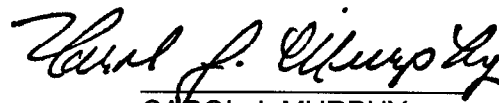
Accordingly, the Board **HEREBY ADOPTS** the attached Stipulation as its own, incorporating by reference its terms and conditions as if fully set forth herein. The rates authorized herein shall be implemented for service rendered on and after the Effective Date. The Board **HEREBY DIRECTS** the Parties to comply with the terms and conditions incorporated within the Stipulation.


The Board **HEREBY FURTHER DIRECTS** the Company to file revised tariff sheets reflecting the terms and provisions of this Order within ten (10) business days of the issuance of this Order.

DATED: 7/23/04

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


CAROL J. MURPHY
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER


JACK ALTER
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

SERVICE LIST

**I/M/O OF THE VERIFIED PETITION OF ROCKLAND ELECTRIC COMPANY FOR
APPROVAL OF CHANGES IN ELECTRIC RATES, ITS TARIFF FOR ELECTRIC SERVICE,
ITS DEPRECIATIONS RATES, AND FOR OTHER RELIEF-- PHASE II UPPER SADDLE RIVER
SUBSTATION, DARLINGTON SUBSTATION, AND INCREMENTAL RELIABILITY PROGRAM
BPU DOCKET NO. ER02100724**

And

**IN THE MATTER OF ROCKLAND ELECTRIC COMPANY'S ANNUAL SOCIETAL BENEFITS
CHARGE FILING
BPU DOCKET NO. ET04040235**

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

I/M/O the Verified Petition of Rockland	:	BPU Docket No. ER02100724
Electric Company for Approval of Changes in	:	
Electric Rates, Its Tariff for Electric Services,	:	
Its Depreciation Rates, and for Other Relief--	:	
Phase II Upper Saddle River Substation,	:	
Darlington Substation, and Incremental	:	
Reliability Program	:	

STIPULATION OF SETTLEMENT

THIS STIPULATION OF SETTLEMENT ("Stipulation") is made as of this 14th day of July 2004, by and among Rockland Electric Company ("RECO" or the "Company"), the New Jersey Division of the Ratepayer Advocate ("Ratepayer Advocate") and Staff of the Board of Public Utilities ("Staff") (collectively referred to herein as the "Signatory Parties").

On October 1, 2002, Rockland Electric Company ("RECO" or the "Company") filed a Verified Petition ("Petition") in the Company's base rate proceeding captioned above in Docket No. ER02100724 ("Base Rate Proceeding") requesting an increase in its base electric rates and charges. Among other things, RECO requested inclusion in rate base of the Upper Saddle River and Darlington Substation projects, and recovery of the capital and operating costs of proposed programs designed to increase the Company's reliability ("Reliability Program"). In its July 31, 2003 Summary Order (at 4, ¶10), superceded by its April 20, 2004 Final Decision and Order ("Final Order") (at 73), the Board of Public Utilities ("Board") established adjusted base rates effective August 1, 2003 for the Company, reflecting a reduction in revenues of \$7.217 million, a 5.3% decrease. At that time, the Board did not authorize recovery of the foregoing items in the adjusted rates due to the timing of those items. The Board, however,

authorized the Company to make a Phase II filing not later than September 1, 2004 to address the Upper Saddle River and Darlington Substation projects and the reliability enhancements and associated flow through impacts. Summary Order at 4, ¶8; Final Order at 61-62, 65.

On March 3, 2004, the Company submitted its “Phase II” filing in the above-captioned matter. The Company’s Phase II filing consists of four pieces of prefiled testimony by five witnesses and revised tariff leaves. Mr. Regan’s testimony addressed plant additions for the Upper Saddle River and Darlington Substation projects (together referred to as “Substation Projects”) and the proposed Reliability Program. The Reliability Program is comprised of component programs for Vegetation Management, Lightning Protection, Distribution Automation, and Pole Inspection, Treatment and Replacement, that are new programs or enhancements to existing programs. The testimony of Paul M. Normand and Peter T. McGoldrick identified and classified the facilities constructed and installed for the Substation Projects, for which inclusion in rates is sought, as distribution related. Richard Kane’s testimony addressed revenue requirements relating to the Substation Projects and proposed Reliability Program. Mr. Kane sponsored Exhibit P-1 (Revenue Requirement Summary), Exhibit P-2 (Electric Cost of Service), Exhibit P-3 (Electric Rate Base), and Exhibit P-4 (Capitalization and Cost of Capital). William Atzl’s testimony addressed electric rate design and impact of the proposed rate changes on customers’ bills. Mr. Atzl sponsored Exhibit P-5 (Present and Proposed Electric Rate Design).

The Company filed revised tariff leaves that propose to adjust the Company’s rates and charges for sales of electricity to residential customers (Service Classification (“SC”) Nos. 1 and 3 and 5), general service customers (SC Nos. 2 and 7), street lighting customers (SC No. 4) and private area lighting customers (SC No. 6).

In its Phase II filing, the Company stated that the increased rates and charges in the Company's tariff are designed to produce additional revenues of \$3.1 million (or a 2.0% increase) based on total revenues calculated using current rates and the Company's sales for the twelve months ended December 31, 2003. The Company claimed this additional revenue is necessary: to allow the Company to recover the costs of the plant additions for the Substation Projects, as well as the Company's Reliability Program, that are incurred to provide service to its customers; to enable the Company to earn the Board-approved rate of return on such capital investment, used and useful in supplying such service; and to enable the Company to provide safe, adequate and proper service to its electric customers. The Company subsequently submitted to the Signatory Parties updated Exhibits, including updates for actuals through June 2004 setting forth a revenue requirement of \$2.9 million.

After proper notice, public hearings on the base rate increase that was proposed in the Petition, inclusive of the increase attributed to the Phase II filing items, were held on February 10, 2003 and March 19, 2003, and an additional public hearing related to the Phase II filing was held on July 7, 2004, in Montvale, New Jersey.

After the Company's Phase II filing, the Ratepayer Advocate engaged consultants that have reviewed RECO's filing (including updates), the Ratepayer Advocate has propounded and the Company has responded to discovery requests, the Ratepayer Advocate has inspected company documents, and representatives of the Signatory Parties exchanged information during discovery conferences. Board Staff has reviewed the Phase II filing (including updates) and discovery and actively participated in discovery conferences. The information included in the Phase II filing and exchanged in informal discovery: set forth capital and operating costs of the Substation Projects and the Reliability Program; confirmed that the Upper Saddle River

Substation was energized in February 2004 and the Darlington Substation was energized in June 2004; and confirmed that the Reliability Program (whether new programs or enhancements to existing programs) has been implemented.

Against this backdrop, the Signatory Parties have engaged in discussions to address issues raised by the Staff and the Ratepayer Advocate and to attempt to settle and resolve the Phase II rate matter. In doing so, the Signatory Parties have reviewed the detailed prefiled testimony, the evidentiary record on the Substation Projects and reliability programs from the Base Rate Proceeding, the Phase II discovery responses, and information from Phase II discovery conferences. The Signatory Parties are also aware of the Board's concerns regarding reliability, expressed in the Board's Final Order (at 62) and in a variety of other dockets, investigations and forums, and have themselves expressed the goal of ensuring customers receive service that is safe, adequate, and reliable.

Given the completeness of RECO's Phase II filing and the intention of the Signatory Parties to reasonably, fully and finally resolve the Phase II matter, and in consideration of the recitals and mutual promises and covenants set forth herein, the Signatory Parties, having given due consideration to filed materials and information exchanged and the various issues addressed therein, DO HEREBY STIPULATE AND AGREE AS FOLLOWS:

1. Filing. RECO's Phase II filing was consistent with and satisfied the requirements of the Final Order. This stipulation resolves all Phase II filing related-issues identified in the Final Order.

2. Revenue Requirements. The Company's total rate base resulting from the Phase II proceeding will be \$128,549,000. It is appropriate to provide RECO and RECO shall be provided an addition to annual distribution revenues of \$2.7 million (or 1.7 % of total revenues),

reflecting capital and operating costs associated with the Substation Projects, and the Reliability Program, and an adjustment to operating revenues to match RECO's increased number of customers, in order to ensure that the Company will continue to provide safe, adequate and proper electric service to its customers. The determination of the revenue requirements is reflected on attached Schedule A.

3. Rate of Return and Capital Structure. With the exception of the items discussed herein, the revenues and rates resulting from this Stipulation otherwise reflect application of all the Board's determinations in the Final Order, including those regarding rate of return and capital structure.

4. Effective Date. The revenue recovery and rates set forth herein shall become effective on the same day as the Company implements a Transition Bond Charge ("TBC") consistent with the securitization transaction approved in the Board's May 26, 2004 Bondable Stranded Costs Rate Order in Docket No. EF02110852 ("Effective Date"). By implementing the rate increase authorized by this Stipulation on the Effective Date (i.e., concurrent with the implementation of the TBC), RECO will promote rate stability. In the event that the securitization transaction does not occur due to unforeseen circumstances, the Signatory Parties agree to discuss the timing of the implementation of the revenue recovery and rates set forth in this Stipulation.

5. Outage Restoration. RECO agrees to implement the outage restoration service performance measure described in Schedule B hereto. RECO agrees to notify its customers of the outage restoration service performance measure on a quarterly basis through bill messages and/or bill inserts. RECO will not seek rate recovery of payments made to its customers pursuant to the outage restoration service performance measure.

6. Tariff/Rate Design. Upon Board approval of the Stipulation and receipt of written authorization from the Board, RECO shall file with the Board, with a copy to the Ratepayer Advocate, revised tariff leaves reflecting the additional revenue requirements approved herein in the form and reflecting the methodology set forth in the Phase II filing (while reflecting the Effective Date) within ten days of the issuance of the Board order. RECO has attached hereto as Schedule C a summary of the revised distribution rates it shall implement on the Effective Date.

7. Provisional SBC Rate. In addition, the Signatory Parties recommend that the Board implement on a provisional basis, subject to refund and interest, the decrease to the Societal Benefits Charge ("SBC") set forth in RECO's April 1, 2004 filing in Docket No. ET04040235 ("Company SBC Filing"), at the same time as it implements the revenue recovery and rates set forth herein. The Signatory Parties contemplate that the decrease will be implemented on a provisional basis, subject to refund with interest after a full review of the Company's SBC Filing in the related proceeding before the Board and, if transmitted thereto, the Office of Administrative Law ("OAL"), and after a final Board Order. It is specifically understood and agreed that this recommendation represents a negotiated compromise resolution that has been made exclusively for the purposes of this Stipulation. Although binding on the Signatory Parties with respect to the recommendation set forth in this Stipulation, the provisional SBC rate recommendation in total or by specific item, is in no way binding upon the Signatory Parties (or non-signatories) and is not to be considered or cited as precedent in favor of or against their respective positions on any issue in the Company's SBC proceeding, except to enforce the terms of this Stipulation. The Signatory Parties agree that the provisional SBC rate recommendation herein is without prejudice to the positions of the respective Signatory Parties

or of the Board with respect to any pending or future cases or other proceedings involving the Company, except as specifically set forth herein, and the Signatory Parties shall not be deemed to have approved, agreed to, or consented to any program, principle, methodology or amounts underlying or supposed to underlie the provisional SBC rate.

8. Substation Projects. The Substation Projects are necessary and proper for the provision of safe, adequate, and proper service. This agreement is without prejudice to the Signatory Parties' positions in connection with any future proceeding. With respect to the Stipulated revenue requirements, the levels of capital costs and operating expenditures (including depreciation) for the Substation Projects included in updated Exs. P-3 (page 2 of 5) and P-2 (page 3 of 5) as set forth in Schedule A to this Stipulation are reasonable.

9. Reliability Program. The Signatory Parties agree that it is reasonable and proper, in order to provide additional support to the provision of safe, adequate and proper service and to increase the reliability of service, for RECO to implement the Reliability Program. RECO has demonstrated that the Reliability Program has been implemented. The levels of capital costs and operating expenditures (including depreciation) for each component program included in updated Exs. P-3 (page 2 of 5) and P-2 (page 3 of 5) as set forth in Schedule A hereto are reasonable. These expenditures were not included for recovery in rates in the Board's Final Order and are above and beyond the level of operations, maintenance and depreciation expenses authorized therein. (See Ex. 3, page 4 of 12 to Final Order).

10. Reasonableness of Stipulation.

A. Reasonable Result. The revenue requirements are the result of a negotiation process with concessions by all parties. This Stipulation will allow the Company to recover the costs of plant and programs that will assist in the provision of safe, adequate and

proper service, and to foster an increased level of reliability. In addition, the Company's agreement to implement an outage restoration program with customer credits provides a further benefit to customers and should provide a higher level of customer service.

B. Support For the Stipulation. The Stipulation is supported by the unanimous agreement of the Signatory Parties. The record in the initial phase of the Base Rate Proceeding, regarding the need for and nature of the Substation Projects and Reliability Program, including detailed testimony, exhibits and briefs, coupled with the Phase II filing, discovery, and detailed discovery conferences, provides substantial and credible support for this Stipulation, including the operating revenue adjustment for customers added since the Base Rate Proceeding. Given this support, and after extensive review of the Phase II filing and information exchanged in this matter, the Signatory Parties are executing this Stipulation to provide for a just, reasonable and efficient resolution of the Phase II proceeding. The Signatory Parties agree that this Stipulation represents a fair overall disposition that protects and promotes the interests of RECO's customers while allowing the opportunity for RECO's reasonable recovery of its costs incurred in the provision of service to customers.

C. Voluntariness. The Signatory Parties agree that this Stipulation is voluntary, consistent with law, and fully dispositive of the issues addressed herein.

11. Expeditious Board Approval. The Signatory Parties agree that the Board should issue an Order that adopts this Stipulation and thereby: (1) authorizes RECO to increase its electric distribution rates to achieve an additional \$2.7 million in revenues; (2) approves such rates for electric service as just and reasonable, to become effective on and after the Effective Date; and (3) approves the proposed distribution rates for inclusion in RECO's Tariff P.U.C. No. 2 Electricity, to become effective on and after the Effective Date. Each Signatory Party agrees to

use its best efforts to ensure the Stipulation is submitted in a timely fashion and to urge the Board to issue its approval of the Stipulation without modification or condition.

12. Waiver of Rights of Appeal. Each Signatory Party specifically waives any right it may have to seek reconsideration of or to appeal an order by the Board that approves the Stipulation in the manner provided for herein without modification.

13. Rights Upon Disapproval or Modification. This Stipulation contains mutually balancing and interdependent provisions, and is intended to be accepted and approved in its entirety to fully and finally resolve all Phase II filing-related issues. This Stipulation is an integral settlement and the various parts hereof are not severable without upsetting the balance of agreements and compromises achieved among the Signatory Parties. In the event the Board disapproves the Stipulation as a whole, it shall be null and void. In the event that any particular aspect of this Stipulation is not accepted and approved by the Board in its entirety, without modification, or is modified by a court of competent jurisdiction: (i) the Signatory Parties are not waiving any legal or procedural rights, arguments or claims they may have before the Board or in any forum, and (ii) this Stipulation shall, at the option and discretion of any Signatory Party aggrieved thereby, exercised by written notice to the other Signatory Parties within ten days after receipt of any such adverse decision, be null and void in which case the Signatory Parties shall be placed in the same position that they were in immediately prior to its execution.

14. Party Reservations. This Stipulation represents a negotiated compromise resolution that has been made exclusively for the purpose of resolving all Phase II filing-related issues. Although binding on the Signatory Parties with respect to the issues resolved herein in these proceedings, this Stipulation, in total or by specific item, is in no way binding upon the Signatory Parties (or non-signatories) and is not to be considered or cited as precedent in favor of

or against their respective positions on any issue in any other proceeding, except to enforce the terms of this Stipulation. The Signatory Parties agree that the resolution of the issues herein shall apply only to the above-captioned case and that any similar future cases shall be reviewed by the Board and the Signatory Parties on an individual basis. This Stipulation is without prejudice to the positions of the respective Signatory Parties or of the Board with respect to any future rate cases or other proceedings involving the Company, except as specifically set forth herein.

15. Captions. The subject headings of the sections of this Stipulation are inserted solely for the purpose of convenient reference and are not intended to, nor shall they, affect the meaning of any provision of this Stipulation.

16. Governing Law. This Stipulation shall be governed and construed in accordance with the laws of the State of New Jersey.

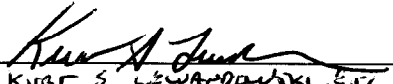
17. Execution. This Stipulation may be executed in one or more counterparts. Each party has caused its duly authorized representative to execute on the following signatory pages and deliver this Stipulation.

ROCKLAND ELECTRIC COMPANY

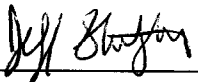
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SCHEDULE A

ROCKLAND ELECTRIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
2nd STAGE RATE FILING
REVENUE REQUIREMENT EXHIBITS

	<u>Exhibit</u>	<u>Page</u>
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ROCKLAND ELECTRIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
REVENUE REQUIREMENT SUMMARY
(\$000)

EXHIBIT P-1
2nd Stage
Summary

	<u>BOARD AUTHORIZED</u>	<u>2nd STAGE UPDATE</u>
RATE BASE (Exhibit P-3, Summary)	\$112,316	\$128,549
RATE OF RETURN (Exhibit P-4, Summary)	<u>8.02%</u>	<u>8.02%</u>
OPERATING INCOME REQUIREMENT	\$ 9,004	\$ 10,305
PRO FORMA OPERATING INCOME (Exhibit P-2, Summary)	<u>9,004</u>	<u>8,711</u>
OPERATING INCOME DEFICIENCY	-	1,594
RETENTION FACTOR *	<u>59.05%</u>	<u>59.05%</u>
REVENUE REQUIREMENT	<u>\$ -</u>	<u>\$ 2,700</u>

* Calculation of Retention Factor:	%
Additional Revenue	100.00%
Uncollectibles @ 0.17%	<u>0.17%</u>
	99.83%
New Jersey Corporate Business Tax @ 9%	<u>8.99%</u>
	90.85%
Federal Income Tax @ 35%	<u>31.80%</u>
	<u><u>59.05%</u></u>

ROCKLAND ELECTRIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
ELECTRIC COST OF SERVICE
(\$000)

	Company (12+0) Filing	Board Adjustments	Board Authorized C.O.S.	2nd Stage Update	Ref.	2nd Stage C.O.S.
<u>Operating Revenues:</u>						
Sales of Electricity	\$ 135,895	\$ (7,217)	\$ 128,678	\$ 171	(1)	\$ 128,849
Other Operating Revenues	1,605	47	1,652	-		1,652
Total Operating Revenues	<u>137,500</u>	<u>(7,170)</u>	<u>130,330</u>	<u>171</u>		<u>130,501</u>
<u>Operating Expenses:</u>						
Purchased Power Expense	86,070	-	86,070	-		86,070
Deferred Purchased Power Expense	(10,804)	-	(10,804)	-		(10,804)
Other O&M Expenses	34,378	(2,413)	31,965	657	2	32,622
Depreciation & Amortization Expense	5,270	(2,996)	2,274	405	(2)	2,679
Amortization of Property Loss	376	-	376	-		376
Taxes O Total Operating Revenue Deductions	8,361	-	8,361	-		8,361
Total Operating Expenses	<u>123,651</u>	<u>(5,409)</u>	<u>118,242</u>	<u>1,062</u>		<u>119,304</u>
Operating Income Before Income Tax	13,849	(1,761)	12,088	(891)		11,197
State Income Tax	693	(129)	564	(132)	(3)	432
Federal Income Tax	2,976	(455)	2,521	(466)	(3)	2,055
Operating Income After Income Taxes	<u>\$ 10,181</u>	<u>\$ (1,177)</u>	<u>\$ 9,004</u>	<u>\$ (293)</u>		<u>\$ 8,711</u>

References:

- (1) Exhibit P-2, Page 2 of 5
- (2) Exhibit P-2, Page 3 of 5
- (3) Exhibit P-2, Page 5 of 5

ROCKLAND ELEC RIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET ER02100724
REVENUE ANNUALIZATION ADJUSTMENT
\$ 000's

EXHIBIT P-2
2nd Stage
Page 2 of 5

Revenue Annualization	Service Classification		
	Residential (SC 1, 3, 5)	Secondary (SC 2)	
Customers at June 30, 2004	62,337	8,037	
Customers at April 30, 2003	62,093	7,959	
Increase in Number of Customers	244	78	
Average Annual Usage per Customer	11,603	69,206	
Additional Usage (kWh)	2,831,132	5,398,068	
Average Distribution Rate	\$0.03227	\$0.03089	
Additional Revenue	\$91,361	\$166,746	\$258,107
Monthly Cost Per Customer Per ECOS (Excl. Primary)	\$15.27	\$45.03	
Annual Cost Per Customer	\$183.24	\$540.36	
Additional Customer Cost	\$44,711	\$42,148	\$86,859
Increase in Operating Income Before Income Tax			\$171,248
Rounded			\$171,000

ROCKLAND ELECTRIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET ER02100724
O&M AND DEPRECIATION ADJUSTMENTS
\$ 000's

EXHIBIT P-2
2nd Stage
Page 3 of 5

Actual Data Through June 30, 2004

**Incremental Stage 2 O&M Expenditures
For System Reliability Program**

- Lightning Protection	193
- Pole Inspection & Treatment	145
- Distribution Automation	41
- Vegetation Management	278
Total System Reliability O&M	\$ 657

<u>Plant Additions</u>	<u>Plant In Service Exhibit P-2 Page 3</u>	<u>Composite Depreciation Rate</u>	<u>Annual Depreciation</u>
Darlington Substation	\$ 15,961		
Upper Saddle River Substation	3,825		
System Reliability Projects	444		
Book Depreciation Additions	\$ 20,230	2.00%	\$ 405

ROCKLAND ELECTRIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET ER02100724

CALCULATION OF ANNUAL DEPRECIATION EXPENSE

FERC ACCT NUMBER	ACCOUNT DESCRIPTION	LIFE OR CURVE	A		ANNUAL RATE %	Plant Balance - Stage II Additions		Annual Depreciation
			S	L		Darlington	USR	
DISTRIBUTION PLANT ACCOUNT								
361000 04	STRUCTURES AND IMPROVEMENTS	h3.0	65		1.54	\$ 937,852	\$ -	\$ 14,443
362000 04	STATION EQUIPMENT	h1.5	45		2.22	6,751,601	3,061,260	217,846
364000 04	POLES,TOWERS AND FIXTURES	h1.5	50		2.00	131,869	69,731	159,990
365000 04	OVERHEAD CONDUCTORS AND DEVICE	h1.5	55		1.82	127,475	82,544	284,486
366000 04	UNDERGROUND CONDUIT	h2.0	55		1.82	2,351,336	-	42,794
367000 04	UNDERGROUND CONDUCTOR & DEVICE	h1.5	55		1.82	5,660,406	611,704	114,152
Total						\$ 15,960,539	\$3,825,239	\$ 444,476
								\$ 405,467

ROCKLAND ELECTRIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
INCOME TAX CALCULATION
(\$000)

EXHIBIT P-2
2nd Stage
Page 5 of 5

<u>SCHEDULE M CALCULATION</u>	<u>BOARD AUTHORIZED</u>	<u>2nd STAGE UPDATE</u>	<u>ADJUSTMENT</u>
REVENUE ANNUALIZATION		\$ (171)	
INCREMENTAL SYSTEM RELIABILITY O&M		657	
DEPRECIATION ON 2ND STAGE ADDITIONS		405	
LOWER NET INCOME BEFORE INCOME TAXES			\$ 891
 INTEREST SYNCHRONIZATION			
RATE BASE (Exhibit P-3, Summary)	\$ 112,316	\$ 128,549	
WEIGHTED COST OF DEBT (Exhibit P-4, Summary)	3.53%	3.53%	
PRO-FORMA INTEREST	3,967	4,540	
LESS: INTEREST INCLUDED IN COST OF SERVICE		(3,967)	
ADDITIONAL INTEREST DEDUCTION			573
TOTAL INCOME TAX DEDUCTIONS			\$ 1,464
COMPOSITE INCOME TAX RATE			40.85%
LOWER INCOME TAXES			\$ 598
STATE INCOME TAXES @ 9%	\$ 132		
FEDERAL INCOME TAXES @ 35%	466		
TOTAL INCOME TAXES @ 40.85%	<u>\$ 598</u>		

ROCKLAND ELECTRIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
ELECTRIC RATE BASE
(\$000)

	Company (12+0)	Board Adjustments	Board Rate Base	2nd Stage Update	Ref.	2nd Stage Filing
	Filing	\$	\$	\$	(1)	\$
ELECTRIC PLANT IN SERVICE	201,055	(20,794)	180,261	20,230	(1)	200,491
ELECTRIC PLANT HELD FOR FUTURE USE	969	-	969	-		969
NON-INTEREST BEARING CWP	1,614	-	1,614	-		1,614
CABLE REHAB INJECTION PROGRAM	1,495	-	1,495	-		1,495
TOTAL UTILITY PLANT	205,133	(20,794)	184,339	20,230		204,569
PLANT DEPRECIATION RESERVE	(67,073)	2,996	(64,077)	(405)	(2)	(64,482)
PROPERTY HELD FOR FUTURE USE DEPRECIATION RESE	(435)	-	(435)	-		(435)
CABLE REHAB INJECTION PROGRAM DEPRECIATION RESI	(268)	-	(268)	-		(268)
TOTAL DEPRECIATION RESERVES	(67,776)	2,996	(64,780)	(405)		(65,185)
NET PLANT	137,357	(17,798)	119,559	19,825		139,384
ADD:						
WORKING CAPITAL:						
LEAD/LAG STUDY CASH	6,516	(374)	6,142	(40)	(3)	6,102
MATERIALS AND SUPPLIES	1,111	-	1,111	-		1,111
PREPAYMENTS	3,402	-	3,402	-		3,402
TOTAL	11,029	(374)	10,655	(40)		10,615
UNAMORTIZED R&D EXPENDITURES	56	(56)	-	-		-
BPU AUDIT/RAMAPO TAX DEFERRALS	295	(295)	-	-		-
TOTAL	351	(351)	-	-		-
DEDUCT:						
NET PENSION/OP&B LIABILITY	(829)	(52)	(881)	-		(881)
CUSTOMER DEPOSITS	(1,767)	-	(1,767)	-		(1,767)
CUSTOMER ADVANCES	(116)	-	(116)	-		(116)
STORM DAMAGE RESERVE	(163)	41	(122)	-		(122)
ACCUMULATED DEFERRED INCOME TAXES-PLANT RELAT	(16,615)	3,087	(13,528)	(3,552)	(4)	(17,080)
ACCUMULATED DEFERRED INCOME TAXES-BOND REDEM	(155)	-	(155)	-		(155)
CONSOLIDATED INCOME TAX ADJUSTMENT	-	(1,329)	(1,329)	-		(1,329)
TOTAL	(19,645)	1,747	(17,898)	(3,552)		(21,450)
ELECTRIC RATE BASE	129,092	(16,776)	112,316	16,233		128,549

References:

- (1) Exhibit P-3, Page 2 of 5
- (2) Exhibit P-2, Page 3 of 5
- (3) Exhibit P-3, Page 3 of 5
- (4) Exhibit P-3, Page 4 of 5

Rockland Electric Company
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
STAGE II PLANT ADDITIONS
May 2004 Forward
(\$000)

EXHIBIT P-3
2nd Stage
Page 2 of 5

<u>Darlington Project</u>	<u>In-Service Cost</u>	
- Substation	\$ 4,119,238	
- U/G Distribution Exits	798,522.0	
- U/G T/L Civil System	4,775,386.0	
- U/G Electrical System	2,384,169.0	
- South Mahwah 138kV Terminals	3,570,215.0	
- 2nd I-287 UG Crossing	53,665.0	
- Distribution Reinforcements	-	
- Distribution Franklin Trpk Dbl Ckt	110,898.0	
- Distribution Hillside Ave	148,446.0	
Darlington Substation		\$ 15,960,539
<u>Upper Saddle River Project</u>		
- Bank Upgrade to 35mVA	239,227.0	
- 69kV Substation Upgrades	778,094.0	
- 2nd Bank and Switchgear	2,043,938.0	
- U/G Distribution Exits	473,834.0	
- Upper Saddle River Distrib Part 2 Lake Rd	-	
- OH Distribution W. Saddle River Road	152,275.0	
- Line 652	137,871.0	
Upper Saddle River Substation		3,825,239
<u>System Reliability Projects</u>		
- Lightning Protection	45,433	
- Dist Automation	236,805	
- Pole Inspect & Treatment	125,757	
- TLM (Pole Reinforcements)	36,481	
System Reliability		444,476
Total Plant Additions	\$	20,230,254

ROCKLAND ELECTRIC COMPANY
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
NET WORKING CAPITAL
(\$000)

	AUTHORIZED BY BOARD			2nd STAGE UPDATE		
	AMOUNT	LAG DAYS	DOLLAR DAYS	AMOUNT	LAG DAYS	DOLLAR DAYS
		43.0			43.0	
TOTAL REVENUE REQUIREMENT						
REQUIREMENTS:						
O&R PURCHASED POWER	\$ 17,713	45.0	\$ 797,085	\$ 17,713	45.0	\$ 797,085
BGS PURCHASED POWER	68,357	35.8	2,447,181	68,357	35.8	2,447,181
DEFERRED PURCHASE POWER	(10,804)	-	-	(10,804)	-	-
SALARIES AND WAGES	9,138	8.2	74,932	9,138	8.2	74,932
PENSIONS	3,533	0.5	1,767	3,533	0.5	1,767
EMPLOYEE WELFARE	5,096	46.2	235,435	5,096	46.2	235,435
JOINT OPERATING EXPENSES	3,604	45.0	162,180	3,604	45.0	162,180
OPERATING RESERVE ACCRUAL	1,166	323.4	377,084	1,166	323.4	377,084
UNCOLLECTIBLE ACCOUNTS	221	43.0	9,503	221	43.0	9,503
M&S ISSUES	181	-	-	181	-	-
OTHER O&M	9,889	51.3	507,306	9,889	51.3	507,306
2ND STAGE - SYSTEM RELIABILITY O&M						
NON-CASH AMORTIZATIONS	-	-	-	657	51.3	33,704
DEPRECIATION AND AMORTIZATION	1,513	-	-	1,513	-	-
2ND STAGE - DEPRECIATION						
AMORTIZATION OF PROPERTY LOSSES	5,270	-	-	5,270	-	-
AMORTIZATION OF GRT	-	-	-	405	-	-
TAXES OTHER THAN INCOME TAXES	376	-	-	376	-	-
NJ SALES AND USE TAX	884	-	-	884	-	-
NJ SALES TAX	7,478	(36.0)	(269,208)	7,478	(36.0)	(269,208)
FEDERAL INCOME TAX	36	35.0	1,260	36	35.0	1,260
CBT	8,250	(51.3)	(423,225)	8,250	(51.3)	(423,225)
2ND STAGE - FEDERAL INCOME TAX						
RETURN ON INVESTED CAPITAL	(204)	37.5	-	(204)	37.5	-
2ND STAGE - CBT						
RETURN ON INVESTED CAPITAL	693	(46.8)	(32,432)	(466)	37.5	-
2ND STAGE - RETURN ON CAPITAL						
	-	-	-	693	(46.8)	(32,432)
	10,181	-	-	(132)	(46.8)	6,178
	-	-	-	10,181	-	-
	-	-	-	124	-	-
TOTAL REQUIREMENT	\$ 142,571	27.3	\$ 3,888,867	\$ 143,159	27.4	\$ 3,928,748
NET LEAD/LAG						
AVERAGE DAILY REQUIREMENT		15.7			15.6	
		\$ 391			\$ 392	
CASH WORKING CAPITAL REQUIREMENT						
		\$ 6,142			\$ 6,102	
NET CHANGE - CASH WORKING CAPITAL					\$ (40)	

Rockland Electric Company
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
DEFERRED INCOME TAXES
(\$000)

EXHIBIT P-3
2nd Stage
Page 4 of 5

Deferred State Income Tax

Book & Tax Basis for Assets	\$	20,230	
Tax Depr Rate		3.75%	
Tax Depreciation		759	
Less: Book Depreciation		(405)	
Net Depreciation Normalized		354	
State Income Tax Rate		9%	
Deferred State Income Taxes	\$		32

Deferred Federal Income Tax

Book & Tax Basis for Assets	\$	20,230	
Bonus Tax Depr. Rate		51.875%	
Tax Depreciation		10,494	
Less: Book Depreciation		(405)	
Net Depreciation Normalized		10,089	
Less: Deferred SIT		(32)	
Net Sch. M Deductions		10,057	
State Income Tax Rate		35%	
Deferred Federal Income Taxes			3,520
Total Deferred Income Taxes			3,552

Rockland Electric Company
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
SUMMARY OF ACTUAL & PROJECT SPENDING
(\$000)

Work Order	Budget #	Budget # Description	Balance Apr-03	Spending May '03-June '04	Remainder FY04 (A/B)	Stage II Spending	Total All Years
40-8890	D850BX	Darlington Subst. 2-35MVA Banks, 6 Ckts	-	4,019,238	100,000	4,119,238	4,119,238
60-9235	D845CX	Darlington Substation UG Exits	-	748,522	50,000	798,522	798,522
60-9236	D614CA	Darlington 138kv UG T/L	-	4,775,386	-	4,775,386	4,775,386
60-8900	T614CA	Darlington 138kv U.T. Cable Installation	-	2,384,169	-	2,384,169	2,384,169
40-8899	T613BX	South Mahwah 138kv Terminals	-	3,470,215	100,000	3,570,215	3,570,215
60-9315	D614CX	Darlington Ave 2nd I-287 U/G Crossing	-	53,665	-	53,665	53,665
40-8996	D841FX	Darlington Distribution Reinforcements P	56,621	-	-	-	56,621
40-9321	D607FA	Darlington Dist Franklin TnPk Double Ckt	-	110,898	-	110,898	110,898
40-9323	D607FB	Darlington Dist Hillside Ave	-	148,446	-	148,446	148,446
	Total Darlington		\$ 56,621	\$ 15,710,539	\$ 250,000	\$ 15,960,539	\$ 16,017,160
40-8893	D704BA	USR upgrade bank 149 to 35mva	868,728	239,227	-	239,227	1,107,955
40-9247	D704BB	USR upgrade 69kv facilities	-	778,094	-	778,094	778,094
40-9248	D704BC	USR install 2nd 35mva bank	-	2,043,938	-	2,043,938	2,043,938
60-9206	D704CX	USR UG Exits	-	473,834	-	473,834	473,834
40-8885	D600FX	Upper Saddle River Distrib Part 2 Lake Rd	308,551	-	-	-	308,551
40-9211	D601FX	Upper Saddle River Distribution Part 1 P	-	152,275	-	152,275	152,275
60-8847	T615CX	Line 652 - Civil / Exits	1,237,805	-	-	-	1,237,805
60-8847	T615Ca	Line 652 - USR Electric Portion	788,161	137,871	-	137,871	926,032
	Total USR		\$ 3,203,245	\$ 3,825,239	\$ -	\$ 3,825,239	\$ 7,028,484
40-9334	D630FA	Incremental Reliability - Lightning Protection	-	45,433	-	45,433	45,433
40-9212	D895CR	Incremental Reliability - Dist Automation	-	236,805	-	236,805	236,805
40-9336	D632FA	Incremental Reliability-Pole Inspect & Treatment	-	125,757	-	125,757	125,757
40-9337	T629FA	Incremental Reliability - TLM (Pole Reinforcements)	-	36,481	-	36,481	36,481
	Total Incremental Reliability		-	444,476	-	444,476	444,476
	Total Darlington, USR & Reliability Projects		3,259,866	19,980,254	250,000	20,230,254	23,490,120
46-9334		Incremental Reliability - Lightning Protection	-	192,560	-	192,560	192,560
46-9336		Incremental Reliability-Pole Inspect & Treatment	-	144,625	-	144,625	144,625
46-9200		Incremental Reliability - Dist Automation	-	40,600	-	40,600	40,600
	Total OBS Incremental Reliability		-	278,000	-	278,000	278,000
				655,785	-	655,785	655,785

Note (A): Balance remaining for blacktopping and landscaping at Darlington & South Mahwah Substations.
(B): Outstanding work on underground exits to be completed in July.

Rockland Electric Company
ELECTRIC DISTRIBUTION RATE CASE
DOCKET NO. ER02100724
CAPITAL STRUCTURE AND COST OF CAPITAL
(\$000)

EXHIBIT P-4
2nd Stage
Summary

Board Authorized Capital Structure	Percent	Cost Rate	Overall Cost of Capital
Debt	54.00%	6.54%	3.53%
Common Equity	<u>46.00%</u>	9.75%	<u>4.49%</u>
Total	<u><u>46.00%</u></u>		<u><u>8.02%</u></u>

Schedule B

Outage Restoration Pilot Program. If RECO fails to restore service within 24 hours, it will credit the affected customer's account with \$25 as a special performance measure ("SPM credit"). Under this SPM Pilot Program, RECO will not provide additional \$25 SPM credits to affected customers for each additional 24-hour period. SPM credits shall be limited to power failures attributable to malfunctions in RECO's local distribution system. RECO, along with its affiliates Orange and Rockland Utilities, Inc. and Pike County Light & Power Company, operate as an integrated system ("O&R System") in the states of New Jersey, New York, and Pennsylvania. As such, any major events that could occur anywhere in the O&R System could command a significant contingent of the Company's resources to address. Under these circumstances, SPM credits will not be provided when customer outages occur in conjunction with outages that occur anywhere on the O&R System, including RECO's system, due to weather events that can be declared as major storms (as defined under each state's reliability reporting criteria), catastrophic events and other acts of God, events caused by third parties, labor disputes, strikes, outages on the bulk power system caused by transmission, generation or other causes including supply shortages and acts of war or terrorism and other intentional torts. Also excluded will be requests for service interruption by outside agencies including, but not limited to, police departments, fire departments, and regional power coordinating councils. In addition, there will be an overall annual cap on SPM credits of \$25,000. This SPM Credit Pilot Program does not in any way limit the Board's regulatory authority with respect to any service interruptions to RECO's customers, nor does it preclude the Board from investigating any outages, ordering appropriate remedies, or adopting any other measures, with respect to service reliability, including, but not

limited to outage restoration, that it may deem appropriate. Additionally, this SPM credit does not in any way limit any RECO customer's right to pursue any legal remedy it believes is available with respect to a specific outage occurrence affecting said customer. The Signatory Parties agreement to this SPM Credit Pilot Program is limited to the specific facts of this Stipulation and shall not be deemed precedential for any future program for this or any other utility. RECO shall provide to the Board and the Signatory Parties an annual report providing a brief summary of each incident that triggers an SPM credit as well as the total annual SPM credits provided to customers.

SCHEDULE C

ROCKLAND ELECTRIC COMPANY
Calculation of Proposed Distribution Rates
Including Sales and Use Tax

	Proposed Distribution <u>Excl SUT</u> (a)	Proposed Distribution <u>SUT</u> (b = a * 6%)	Proposed Distribution <u>Incl SUT</u> (c = a + b)
Service Classification No. 1			
Customer Charge (\$/mo)	3.63	0.22	3.85
Energy:			
First 250 kWh -S (\$/kWh)	0.02888	0.00173	0.03061
First 250 kWh -W (\$/kWh)	0.02888	0.00173	0.03061
Over 250 kWh -S (\$/kWh)	0.03363	0.00202	0.03565
Over 250 kWh -W (\$/kWh)	0.02888	0.00173	0.03061
Water Heat -S (\$/kWh)	0.02367	0.00142	0.02509
Water Heat -W (\$/kWh)	0.02367	0.00142	0.02509
Space Heat -W (\$/kWh)	0.02033	0.00122	0.02155
Service Classification No. 2			
Customer Charge (\$/mo)	6.17	0.37	6.54
Demand:			
First 5 kW -S (\$/kW)	0.00	0.00	0.00
First 5 kW -W (\$/kW)	0.00	0.00	0.00
Over 5 kW -S (\$/kW)	2.84	0.17	3.01
Over 5 kW -W (\$/kW)	2.44	0.15	2.59
Energy:			
First 4,920 kWh -S (\$/kWh)	0.03375	0.00203	0.03578
First 4,920 kWh -W (\$/kWh)	0.03087	0.00185	0.03272
Second Block - Summer	0.02189	0.00131	0.02320
Second Block - Winter	0.02189	0.00131	0.02320
Over 60k or 300HU - Summer	0.01123	0.00067	0.01190
Over 60k or 300HU - Winter	0.01123	0.00067	0.01190
Space Heat -S (\$/kWh)	0.03043	0.00183	0.03226
Space Heat -W (\$/kWh)	0.01965	0.00118	0.02083
Service Classification No. 3			
Customer Charge (\$/mo)	4.64	0.28	4.92
Energy:			
Peak -S (\$/kWh)	0.03819	0.00229	0.04048
Peak -W (\$/kWh)	0.03454	0.00207	0.03661
Off Peak - Summer	0.01551	0.00093	0.01644
Off Peak - Winter	0.01551	0.00093	0.01644

ROCKLAND ELECTRIC COMPANY
Calculation of Proposed Distribution Rates
Including Sales and Use Tax

	Proposed Distribution <u>Excl SUT</u> (a)	Proposed Distribution <u>SUT</u> (b = a * 6%)	Proposed Distribution <u>Incl SUT</u> (c = a + b)
Service Classification No. 5			
Customer Charge (\$/mo)	3.63	0.22	3.85
Energy:			
First 250 kWh - Summer	0.02781	0.00167	0.02948
First 250 kWh - Winter	0.02781	0.00167	0.02948
Next 450 kWh -S (\$/kWh)	0.03187	0.00191	0.03378
Next 450 kWh -W (\$/kWh)	0.02781	0.00167	0.02948
Over 700 kWh -S (\$/kWh)	0.03464	0.00208	0.03672
Over 700 kWh -W (\$/kWh)*	0.02859	0.00172	0.03031
Over 700 kWh -W (\$/kWh)	0.03248	0.00195	0.03443
Service Classification No. 7			
Customer Charge (\$/mo)	123.26	7.40	130.66
Demand			
Period I (\$/kW)	1.76	0.11	1.87
Period II (\$/kW)	0.44	0.03	0.47
Period III (\$/kW)	1.61	0.10	1.71
Period IV (\$/kW)	0.44	0.03	0.47
Energy:			
Period I (\$/kWh)	0.01470	0.00088	0.01558
Period II (\$/kWh)	0.01156	0.00069	0.01225
Period III (\$/kWh)	0.01470	0.00088	0.01558
Period IV (\$/kWh)	0.01156	0.00069	0.01225
Space Heat -S (\$/kWh)	0.03041	0.00182	0.03223
Space Heat -W (\$/kWh)	0.01964	0.00118	0.02082

ROCKLAND ELECTRIC COMPANY
Calculation of Proposed Distribution Rates
Including Sales and Use Tax

	Proposed Distribution <u>Excl SUT</u> (a)	Proposed Distribution <u>SUT</u> (b = a * 6%)	Proposed Distribution <u>Incl SUT</u> (c = a + b)
<u>Service Classification No. 4</u>			
5800 SV (\$/luminaire/mo.)	3.78	0.23	4.01
9500 SV	4.14	0.25	4.39
16000 SV	5.08	0.30	5.38
27500 SV	6.55	0.39	6.94
46000 SV	10.60	0.64	11.24
16000 SV Offset	10.00	0.60	10.60
27500 SV	8.53	0.51	9.04
46000 SV	12.06	0.72	12.78
1000 OBI	2.53	0.15	2.68
2500 OBI	3.47	0.21	3.68
6000 CB	5.48	0.33	5.81
4000MV	3.43	0.21	3.64
7900 MV	4.12	0.25	4.37
12000 MV	5.40	0.32	5.72
22500 MV	6.95	0.42	7.37
40000 MV	10.68	0.64	11.32
59000 MV	13.64	0.82	14.46
4000 MV	5.14	0.31	5.45
7900 MV	6.37	0.38	6.75
7900 MV Offset	7.43	0.45	7.88
15 Foot Brackets	0.22	0.01	0.23
Undrg - Co. Owned	8.33	0.50	8.83
Undrg - Cust. Owned	2.02	0.12	2.14

ROCKLAND ELECTRIC COMPANY
Calculation of Proposed Distribution Rates
Including Sales and Use Tax

	Proposed Distribution <u>Excl SUT</u> (a)	Proposed Distribution <u>SUT</u> (b = a * 6%)	Proposed Distribution <u>Incl SUT</u> (c = a + b)
Service Classification No. 6			
5800 SV (\$/luminaire/mo.)	2.42	0.15	2.57
9500 SV	2.93	0.18	3.11
16000 SV	3.19	0.19	3.38
5800 SV	3.32	0.20	3.52
9500 SV	3.67	0.22	3.89
16000 SV	4.54	0.27	4.81
27500 SV	5.89	0.35	6.24
46000 SV	9.69	0.58	10.27
27500 SV	5.89	0.35	6.24
46000 SV	9.69	0.58	10.27
16000 SV Offset	8.71	0.52	9.23
4000 MV	3.71	0.22	3.93
7900 MV	4.37	0.26	4.63
22500 MV	7.11	0.43	7.54
4000 MV	4.06	0.24	4.30
7900 MV	4.73	0.28	5.01
22500 MV	7.50	0.45	7.95
1000 In	3.29	0.20	3.49
2500 In	4.33	0.26	4.59
12000 MV	5.98	0.36	6.34
40000 MV	11.13	0.67	11.80
59000 MV	14.00	0.84	14.84
15 Foot Brackets	0.22	0.01	0.23
Service Classification No. 6			
Customer Charge - Metered	6.25	0.38	6.63
Customer Charge - Unmetered	1.30	0.08	1.38
Energy (kWh) - Summer	0.03518	0.00211	0.03729
Energy (kWh) - Winter	0.03518	0.00211	0.03729



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

DIVISION OF ENERGY

IN THE MATTER OF THE PETITION OF)
ROCKLAND ELECTRIC COMPANY FOR)
APPROVAL OF CHANGES IN ELECTRIC)
RATES, ITS TARIFF FOR ELECTRIC)
SERVICES, ITS DEPRECIATION RATES,)
AND FOR OTHER RELIEF – PHASE II UPPER)
SADDLE RIVER SUBSTATION, DARLINGTON)
SUBSTATION, AND INCREMENTAL)
RELIABILITY PROGRAM)

ORDER ADOPTING
STIPULATION

DOCKET NO. ER02100724

IN THE MATTER OF ROCKLAND ELECTRIC)
COMPANY'S ANNUAL SOCIETAL BENEFITS)
CHARGE FILING)

DOCKET NO. ET04040235

(SERVICE LIST ATTACHED)

BY THE BOARD¹:

On March 3, 2004, Rockland Electric Company ("RECO" or the "Company"), a public utility of the State of New Jersey, filed a Phase II petition with the Board of Public Utilities ("Board") seeking approval of an increase in rates for electric distribution service pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.12. The petition sought additional revenues of \$3.1 million (or a 2.0% increase) based on total revenues calculated using current rates and the Company's sales for the twelve months ended December 31, 2003.

On April 2, 2004, RECO also submitted its annual Societal Benefits Charge ("SBC") filing, Docket No. ET04040235, to reconcile any over- or under-recovered balances recovered through the SBC and to provide for current program cost recovery ("SBC Filing").

¹ Commissioner Frederick K. Butler did not participate in the deliberation or vote on this matter.

The Company is a wholly owned subsidiary of Orange and Rockland Utilities, Inc. ("O&R"), a New York utility. O&R is a subsidiary of Consolidated Edison, Inc. ("CEI"). RECO provides electric distribution service to approximately 70,000 customers in portions of Bergen, Passaic and Sussex Counties.

PROCEDURAL HISTORY

On October 1, 2002, the Company filed its original petition in the above-referenced docket requesting an increase in its base electric rates and charges. Among other things, RECO requested inclusion in rate base of costs associated with the Upper Saddle River and Darlington Substation projects as well as costs associated with new and/or enhancements to various reliability programs. Public hearings were held on February 10, 2003 and March 19, 2003 in Montvale.

At the conclusion of comprehensive evidentiary hearings in the Office of Administrative Law ("OAL") and receipt of an Initial Decision from an Administrative Law Judge ("ALJ"), on July 31, 2003 the Board issued a Summary Order, which was followed on April 20, 2004 with a Final Decision and Order ("Final Order") deciding the Company's rate filing as well as its deferred balance filing.² The Board established adjusted base rates effective August 1, 2003 for the Company, reflecting a reduction in revenues of \$7.217 million, a 5.3% decrease. Although the Board disallowed the costs associated with the Upper Saddle River and Darlington Substation projects as well as costs associated with the reliability projects, it authorized RECO to make a Phase II filing not later than September 1, 2004 to address these expenses and the associated flow through impacts. Summary Order at 4; Final Order at 61-62, 65. The Board left the rate case docket open for this purpose.

In accordance with the Summary Order and the Final Order, on March 3, 2004, the Company filed the Phase II petition requesting a base rate increase of \$3.1 million (or 2.0%) based on total revenues calculated using current rates and the Company's sales for the twelve months ended December 31, 2003. The Board retained jurisdiction over the matter as opposed to transmitting it over to the Office of Administrative Law ("OAL").

A prehearing conference was held on June 9, 2004. Representatives of the Company, the Division of the Ratepayer Advocate ("RPA") and Board Staff (collectively, "the parties") participated. There were no intervenors in this proceeding. Evidentiary hearings were scheduled for August 25, 26, and 27, 2004 before the Honorable Carol J. Murphy, Commissioner. In addition discovery deadlines were established and the parties agreed to continue to meet to discuss an amicable resolution of this matter.

Pursuant to the schedule established at the pre-hearing conference, an additional public hearing was held on July 7, 2004 in Montvale at which time no members of the public appeared.

Throughout the discovery period, settlement discussions were held between the parties. After extensive discussions, the parties reached a settlement on all issues in the Phase II rate proceeding ("Stipulation" or "settlement").³

² I/M/O the Verified Petition of Rockland Electric Company for the Recovery of Its Deferred Balances and the Establishment of Non-Delivery Rates Effective August 1, 2003, BPU Docket No. ER02080614.

³ Since this matter was never transmitted over to the OAL, the Board retains jurisdiction.

STIPULATION

As set forth in the attached stipulation, the Parties agreed as follows:⁴

- RECO's Phase II filing was consistent with and satisfied the requirements of the Final Order. It resolves all Phase II issues as identified in the Final Order. (Stipulation numbered paragraph 1).
- RECO's total rate base resulting from this proceeding will be \$128,549,000. (Stipulation numbered paragraph 2).
- A revenue increase of \$2.7 million or 1.7% over present revenues is appropriate and necessary to ensure that the Company will continue to provide safe, adequate and proper electric distribution service to its customers. This Stipulation allows the Company to recover the costs of the Upper Saddle River and Darlington Substation projects and the added expenditures related to increased reliability measures. The determination of the revenue requirements is reflected on Schedule A to the settlement. (Stipulation numbered paragraph 2).
- The revenues and rates resulting from the Stipulation reflect application of all the Board's determinations in the Final Order, including those regarding rate of return and capital structure. (Stipulation numbered paragraph 3)
- The \$2.7 million base rate increase will become effective the same day the Company implements a Transition Bond Charge ("TBC") consistent with the securitization transaction approved in the Board's May 26, 2004 Bondable Stranded Rate Order in Docket No. EF02110852. ("Effective Date"). (Stipulation numbered paragraph 4).
- Petitioner's April 2, 2004 annual SBC filing, requesting a decrease in the SBC rate, shall be implemented on a provisional basis, subject to refund and interest pending a full and complete review of the filing by the parties to that matter (Stipulation numbered paragraph 6).
- By implementing the base rate increase and the provisional SBC decrease authorized by the Stipulation on the Effective Date (i.e. concurrently with securitization) RECO will ensure that customers experience only one rate change, which will result in an overall rate decrease. (Stipulation numbered paragraphs 4 and 6).
- RECO agrees to implement an outage restoration ~~pilot~~ service performance measure ("SPM") whereby customers will receive a \$25 bill credit if deprived of service for more than 24 hours as a result of a power failure attributable to malfunctions in RECO's local distribution system. However, the SPM is excluded when customer outages occur in conjunction with outages that occur anywhere on the Orange & Rockland ("O&R") system, including RECO's system, due to weather events that can be declared as major storms (as defined under New York and New Jersey's reliability reporting criteria), catastrophic events and other acts of God, events caused by third parties, labor disputes, strikes, outages on the bulk power system caused by transmission, generation or other causes

⁴ This is intended as a summary of the settlement. The full settlement agreement controls.

including supply shortages and acts of war or terrorism and other intentional torts. Also excluded are requests for service interruption by outside agencies, including, but not limited to, police departments, fire departments, and regional power coordinating councils. Additionally, RECO's liability under the outage restoration program is capped at \$25,000. (Stipulation numbered paragraph 5, attachment Schedule B).

DISCUSSION AND FINDINGS

At the outset, it must be recognized that as a result of (1) the provision of the Stipulation whereby RECO has agreed that the \$2.7 million rate increase will not become effective until the Effective Date; (2) RECO's success in the last Basic Generation Service ("BGS") auction in securing BGS for its customers at a reasonable price; and (3) a small decrease in RECO's Societal Benefits Charge approved on a provisional basis, subject to refund and interest as provided herein; the average residential customer using 925 kilowatt hours (kwh) per month will in fact experience an annualized rate decrease of 0.70%.

In addition, the settlement recognizes the importance this Board has placed on providing customers with reliable utility service both by RECO's implementation of new and enhanced reliability programs and agreement to implement an outage restoration service performance pilot measure. As indicated in the Settlement, under the terms of the stipulated SPM Credit Pilot Program, the Board's regulatory authority shall not be limited with respect to any service interruptions to RECO's customers, nor shall the Board be precluded from investigating any outages, ordering appropriate remedies, or adopting any other measures with respect to service reliability, including, but not limited to, outage restoration, that it may deem appropriate.

Moreover, the SPM Credit does not in any way limit any electric customer's right to pursue any legal remedy, it believes is, available with respect to a specific outage occurrence affecting said customer. Additionally, pursuant to the stipulation, the SPM Pilot Program is limited to the specific facts of this stipulation and shall not be deemed confidential for any future negotiations for this or any other utility. Finally, RECO has agreed and is **HEREBY DIRECTED** to provide to the Board and to the signatory parties an annual report providing a brief summary of all incidents that triggers an SPM credit as well as the total annual SPM credits provided to customers.

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Having reviewed the Stipulation and the Initial Decision, the Board is satisfied and, **HEREBY FINDS**, that the Stipulation represents a fair and reasonable resolution of the issues and is in the public interest. The Board recognizes that the proposed Stipulation is the result of intense negotiations among the parties and is responsive to and balances the respective needs of both the utility and its customers.

The Board **FURTHER FINDS** (1) the Parties have voluntarily agreed to the Stipulation; and (2) the Stipulation fully disposes of all issues in controversy and is consistent with the law.

Consequently, effective on the date of this Order, the Board **HEREBY ADOPTS** the attached Stipulation as its own, incorporating by reference its terms and conditions as if fully set forth herein.

The Board **HEREBY DIRECTS** the Parties to comply with the terms and conditions incorporated within the Stipulation.

The Board **HEREBY FURTHER DIRECTS** the Company to file revised tariff sheets reflecting the terms and provisions of this Order within ten (10) business days of the issuance of this Order.

DATED:

BOARD OF PUBLIC UTILITIES
BY:

JEANNE M. FOX
PRESIDENT

CAROL J. MURPHY
COMMISSIONER

CONNIE O. HUGHES
COMMISSIONER

JACK ALTER
COMMISSIONER

ATTEST:

KRISTI IZZO
SECRETARY

SERVICE LIST
I/M/O OF THE VERIFIED PETITION OF ROCKLAND ELECTRIC COMPANY FOR
APPROVAL OF CHANGES IN ELECTRIC RATES, ITS TARIFF FOR ELECTRIC SERVICE,
ITS DEPRECIATIONS RATES, AND FOR OTHER RELIEF-- PHASE II UPPER SADDLE
RIVER SUBSTATION, DARLINGTON SUBSTATION, AND INCREMENTAL RELIABILITY
PROGRAM
BPU DOCKET NO. ER02100724
And
IN THE MATTER OF ROCKLAND ELECTRIC COMPANY'S ANNUAL SOCIETAL BENEFITS
CHARGE FILING
BPU DOCKET NO. ET04040235

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